

Message Text

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TAGS: EFIN, EEC

SUBJECT: EC COUNCIL (FINANCE) CONSIDERS CURRENCY BASKET AS
UNIT OF ACCOUNT

REF: EC BRUSSELS 1453 (NOTAL)

1. SUMMARY: THE EC MONETARY COMMITTEE AND THE COMMISSION HAVE PROPOSED THAT THE COUNCIL (FINANCE) ADOPT A EUROPEAN CURRENCY MARKET BASKET AS A NEW UNIT OF ACCOUNT (U.A.) AT ITS MARCH 18 MEETING. THE COMMITTEE'S UNANIMOUS DECISION INDICATES CONSIDERABLE MEMBER STATE SUPPORT FOR THE NEW U.A. IT WOULD APPLY PROVISIONALLY, HOWEVER, TO ONLY A FEW EC INSTITUTIONS BUT THE COMMISSION HOPES EVENTUALLY TO BROADEN ITS APPLICATION TO INCLUDE ALL EC INSTITUTIONS. END SUMMARY.

2. RECOMMENDATION TO THE COUNCIL: THE EC MONETARY COMMITTEE AND COMMISSION HAVE PROPOSED TO THE EC COUNCIL (FINANCE) THAT A MARKET BASKET OF EC CURRENCIES BE ADOPTED AS A NEW U.A. AT FIRST IT WOULD BE ADOPTED PROVISIONALLY BY THE EUROPEAN DEVELOPMENT FUND (FED) AND EUROPEAN INVESTMENT BANK. THE
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EUROPEAN COAL AND STEEL COMMUNITY WOULD USE THE NEW U.A. BE-

GINNING IN APRIL.

3. CURRENCY WEIGHTS: THE MONETARY COMMITTEE REACHED UNANIMOUS AGREEMENT AT ITS MARCH 4 MEETING ON USING A BASKET OF CURRENCIES, AND SUBSEQUENTLY THE COMMISSION PROPOSED THE WEIGHTS FOR EC CURRENCIES IN THE BASKET. THE FOLLOWING ARE THE PROPOSED CURRENCY WEIGHTS: DM, 27.3 PERCENT; POUND STERLING, 17.5 PERCENT; FRENCH FRANC, 19.5 PERCENT; LIRA, 14 PERCENT; DUTCH GUILDER, 9 PERCENT; BELGIAN FRANC, 7.9 PERCENT; LUXEMBOURG FRANC, 0.3 PERCENT; DANISH KRONE, 3 PERCENT; AND IRISH POUND, 1.5 PERCENT. THE EC MINI-SNAKE CURRENCIES ACCOUNT FOR 47.5 PERCENT OF THE BASKET.

4. CALCULATION ON NEW U.A.: THE BASKET WILL BE CALCULATED IN TERMS OF THE BELGIAN FRANC (BF). THE COMMISSION WILL PUBLISH THE DAILY VALUE OF THE U.A. COMMISSION OFFICIALS PREFER TO USE THE CURRENCY OF A SMALL MEMBER STATE IN CALCULATING THE U.A. IN ORDER TO KEEP A MAJOR CURRENCY, SUCH AS THE DM, FROM POSSIBLY BEING CALLED THE EUROPEAN DOLLAR. THE U.A.'S ORIGINAL VALUE WOULD BE FIXED AT \$1.20635 AS OF JUNE 28, 1974, WHICH IS THE SAME DATE AND VALUE USED IN ESTABLISHING THE ADR.

5. POSSIBLE FUTURE APPLICATION: THE COMMISSION PREFERS WAITING TO SEE HOW THE MARKET REACTS TO THE NEW U.A. BEFORE PROPOSING THAT

IT BE USED FOR BORROWING OPERATIONS SUCH AS THE EUROPEAN COMMON BORROWING FACILITY. COMMISSION OFFICIALS INTEND TO ASK THE MEMBER STATES TO CONSIDER ADOPTING THE CURRENCY BASKET AS THE U.A. FOR THE EC BUDGET. IT WILL DELAY MAKING ANY FORMAL PROPOSAL, HOWEVER, UNTIL AFTER THE BRITISH REFERENDUM, BECAUSE THE CURRENT BUDGET U.A. HAS THE EFFECT OF REDUCING THE COST OF UK BUDGETARY CONTRIBUTIONS. IT WOULD BE TECHNICALLY FEASIBLE TO USE THE NEW U.A. FOR THE CAP. COMMISSION OFFICIALS BELIEVE, HOWEVER, THAT POLITICAL OBSTACLES WILL DELAY FOR SOMETIME ANY CHANGE IN THE CURRENT CAP U.A. CHANGES IN THE RELATION OF THE U.A. TO THE MEMBER STATE CURRENCIES IN CONNECTION WITH THE CAP AND THE BUDGET BECOME HIGHLY POLITICAL BECAUSE THEY AFFECT THE VOLUME OF MONEY PAID IN OR RECEIVED AND THE SUPPORT PRICES PAID TO FARMERS.

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6. COMMENT: FRENCH FINANCE MINISTER FOURCADE PROPOSED IN SEPTEMBER THAT EACH OF THE MAJOR MEMBER STATES BE GIVEN A WEIGHTING OF 22 PERCENT IN THE BASKET. THE COMMISSION PROPOSED A BASKET ON THE BASIS OF GNP AND INTRA-EC TRADE SHARES (SEE EC BRUSSELS 9970). THE MONETARY COMMITTEE "POLITICALLY POLISHED" THIS PROPOSAL BECAUSE SEVERAL MEMBER STATES WANTED TO ADJUST THE CURRENCY WEIGHTS FOR REASONS OF NATIONAL PRESTIGE. EVEN IF THE NEW U.A. IS ADOPTED, ITS IMPORTANCE SHOULD NOT BE EXAGGERATED.

FLOATING EXCHANGE RATES HAVE FORCED THE EC TO CONSIDER A NEW
ACCOUNTING METHOD, AND IT WILL BE SOMETIME BEFORE THE NEW U.A.
IS APPLIED TO THE EC INSTITUTIONS THAT REALLY COUNT, I.E.,
THE BUDGET AND THE CAP. END COMMENT.

7. THE MISSION IS SENDING TO WASHINGTON AGENCIES CONCERNED
COPIES OF THE MONTARY COMMITTEE'S AND COMMISSION'S PROPOSALS.
GREENWALD

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